

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**SB 2292 - HB 2439**

March 8, 2012

**SUMMARY OF BILL:** Requires insurance companies licensed in Tennessee to electronically submit to the Department of Revenue (DOR) confirmation that any insurance policy or renewal sold meets the requirements of the Tennessee Financial Responsibility Law (TFRL) and notification of any insurance policy cancellation or termination. Establishes the information that shall be included in such confirmations and notifications. Authorizes DOR to contract with a private entity for the compiling and maintenance of electronic information received. Authorizes DOR to establish an electronic compliance database to contain such information, which shall be accessible to county clerks, the Department of Safety (DOS), and local law enforcement agencies. Prohibits the issuance of certificates of title and motor vehicle registrations and renewals unless the county clerk or DOR receives satisfactory proof that the motor vehicle is subject to an insurance policy meeting the requirements of TFRL. Upon receiving notice of coverage cancellation or termination, DOR shall suspend that person's motor vehicle registration and notify DOS to suspend the person's driver license. Requires law enforcement officers to obtain information from the records or database of DOR to verify whether the required financial responsibility is maintained and currently effective when a driver is charged with certain specified violations. Requires the Commissioners of Revenue and Safety to promulgate rules and regulations.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact –**

**\$2,981,200/FY12-13**

**\$5,962,300/FY13-14 and Subsequent Years**

**Increase State Expenditures –**

**Exceeds \$3,384,500/FY12-13**

**Exceeds \$2,354,200/FY13-14 and Subsequent Years**

**Decrease Local Revenue – Net Impact –**

**\$9,758,200/FY12-13**

**\$19,516,300/FY13-14 and Subsequent Years**

**Increase Local Expenditures –**

**Exceeds \$100,000/FY12-13\***

**Exceeds \$200,000/FY13-14 and Subsequent Years\***

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Assumptions:

- Based on information submitted by DOR, it is reasonably estimated there are approximately 6,791,500 vehicles registered in Tennessee. This number is assumed to remain constant in subsequent years under current law.
- Based on information submitted by the Comptroller's Office for similar bills proposed during the 105<sup>th</sup> and 106<sup>th</sup> General Assemblies, the uninsured motorist rate in Tennessee is estimated to be 22 percent (or 1,494,130 uninsured motorists). This number is assumed to remain constant in subsequent years under current law.
- Thirty percent of uninsured motorists (or 448,239) will be able to acquire appropriate levels of insurance and will be able to continuing renewing their motor vehicle registrations. As a result, there will be a recurring increase in state revenue derived from additional insurance premium taxes as 448,239 individuals acquire insurance. Pursuant to Tenn. Code Ann. § 56-4-205(a), the gross premiums tax is a 2.5 percent tax on gross insurance premiums. Assuming an average annual premium of \$300 for the minimum required level of liability insurance, the recurring increase in gross premiums tax revenue is estimated to be \$3,361,793 ( $\$300 \text{ annual premium} \times 448,239 \text{ individuals} \times 2.5\% \text{ tax}$ )
- Of the remaining 70 percent (or 1,045,891), 75 percent (or 784,418) will not be able to acquire or maintain adequate insurance and will not be able to renew or maintain motor vehicle registrations; thus causing a recurring decrease in motor vehicle registration fee revenue. In addition, these individuals will have their driver licenses revoked; thus causing a recurring decrease in driver license renewal fee revenue. The remaining 25 percent (or 261,473) will acquire insurance for the purpose of initially obtaining motor vehicle registrations, but will subsequently and repeatedly lapse in making premium payments causing insurance companies to terminate policies. When notified by the insurance companies, DOR will revoke the applicable motor vehicle registrations, and when notified by DOR, the Department of Safety (DOS) will revoke the applicable driver licenses. However, registration fees will have been collected from these individuals at the onset, and such individuals will be required to pay fees to reinstate both motor vehicle registrations and drivers licenses.
- According to DOS, the Department will require the driver license number in order to revoke licenses. This bill does not require county clerks or DOR to report the driver license number to DOS. However, for the purpose of this fiscal note, it is assumed the driver license number is reported to DOS in order for the Department to revoke licenses as required by the bill.
- The average state registration fee among all class codes is estimated to be \$28.50 per vehicle; the average county wheel tax is estimated to be \$28.75 per vehicle.
- The recurring decrease in state revenue attributable to reduced registration fees is estimated to be \$22,355,913 ( $784,418 \times \$28.50$ ).
- The recurring decrease in local government revenue attributable to reduced registration and county wheel tax collections is estimated to be \$22,552,018 ( $784,418 \times \$28.75$ ).
- The 784,418 that will not be able to maintain motor vehicle registrations will have their driver license revoked. A driver license is valid for five years and the renewal fee is \$17.50; therefore, approximately 156,884 ( $784,418 / 5$ ) individuals will not be able to

renew driver licenses each year; thus causing a recurring decrease in state revenue of \$2,745,470 ( $156,884 \times \$17.50$ ).

- Of the 261,473 individuals that acquire insurance for the purpose of initially obtaining motor vehicle registrations, fifty percent (or 130,737) will lapse in making premium payments during the first year; the remaining 50 percent are assumed to lapse in making premium payments during the second year. These individuals will repeatedly have difficulty maintaining adequate liability insurance, and as a result, will have difficulty maintaining their motor vehicle registrations and driver licenses. However, these individuals will continue to attempt to be in compliance with this law over time. As a result, it is estimated that 130,737 individuals will have their motor vehicle registrations and driver licenses revoked in any given year. It is further assumed that these individuals will subsequently pay appropriate reinstatement fees to reacquire their motor vehicle registration and driver license.
- Based on information provided by DOS, the total reinstatement fee for a driver license is estimated to be \$84.50, which consists of a reinstate fee of \$65 and a driver license fee of \$19.50. Therefore, a recurring increase in state revenue of \$11,047,277 ( $130,737 \times \$84.50$ ).
- The total reinstatement fee for a motor vehicle registration is estimated to be \$45 (\$22.50 to the state; \$22.50 to local governments). Therefore, a recurring increase in state revenue of \$2,941,583 ( $130,737 \times \$22.50$ ); and a recurring increase in local revenue of \$2,941,583 ( $130,737 \times \$22.50$ ).
- Of the 1,045,891 individuals that cannot consistently maintain insurance, approximately five percent (or 52,295) will be cited each year for driving with a revoked motor vehicle registration and a revoked driver license. These individuals are assumed to incur violations each year under current law for driving without adequate insurance. Seventy percent of these individuals (or 36,607) are cited as first-time offenders; the remaining thirty percent (or 15,688) are cited as second-time offenders.
- Given these individuals are not be able to consistently maintain adequate insurance, a higher-than-normal indigent rate is assumed. Forty percent of individuals that incur first-time violations under current law (or 14,643) are assumed to be indigent; therefore, not paying any assessed fines. Fifty percent of individuals that incur second-time violations under current law (or 7,844) are assumed to be indigent; therefore, not paying any fines assessed. As a result, approximately 21,964 first-time offenders ( $36,607 - 14,643$ ) are assumed to pay their assessed fines under current law; and approximately 7,844 second-time offenders ( $15,688 - 7,844$ ) are assumed to pay their assessed fines under current law.
- Individuals assumed to pay fines under current law are assumed to pay any incremental fines incurred under this bill. The average incremental fine for first-time offenders (for driving with revoked motor vehicle registrations and a revoked driver licenses) is estimated to be \$50; the average incremental fine for second-time offenders is estimated to be \$100. The incremental fines estimated are assumed to be the difference between the total fine these individuals will incur under this bill (for driving on a revoked license, a revoked motor vehicle registration, and without adequate liability insurance), and the fine these individuals incur under current law (for driving without adequate insurance).
- The recurring increase in fine revenue of \$1,882,600 [ $(21,964 \times \$50) + (7,844 \times \$100)$ ].
- Local governments receive five percent of fine revenue as commission.

- The recurring increase in fine revenue to local governments is estimated to be \$94,130 (\$1,882,600 x 5.0%).
- The recurring increase in fine revenue to the state is estimated to be \$1,788,470 (\$1,882,600 x 95.0%).
- The net recurring decrease in state revenue will be \$5,962,260 [(\$22,355,913 + \$2,745,470) – (\$3,361,793 + \$11,047,277 + \$2,941,583 + \$1,788,470)].
- The net recurring decrease in local government revenue will be \$19,516,305 [\$22,552,018 – (\$2,941,583 + \$94,130)].
- According to DOS, the Department will require 50 additional positions to implement the provisions of this bill. The recurring increase in state expenditures for these positions is estimated to be \$2,154,242 (\$1,212,660 salaries; \$568,382 benefits; \$373,200 operational). One-time state expenditures associated with these positions is estimated to be \$189,300 (computers, software, etc.).
- DOS indicates that multiple system changes will be required to implement the provisions of this bill, and for interfacing departmental systems with the required newly-required database in DOR. Such modifications will be performed by a contracted vendor. The one-time increase in state expenditures is estimated to be \$18,100.
- Based on information provided by DOR, the one-time increase in state expenditures for developing a new database system accessible by all law enforcement agencies is unknown, but reasonably estimated to exceed \$2,000,000. Such database will be developed by a contracted vendor. The recurring increase in state expenditures in order to perform routine maintenance and updates on such new database system is unknown, but reasonably estimated to exceed \$200,000 per year. Such maintenance will be performed by a contracted vendor.
- A recurring increase in local government expenditures for additional county clerk costs for processing registrations with proof of financial responsibility, mailing back registrations not properly submitted. Such additional administrative costs are reasonably estimated to exceed \$100,000 per year statewide.
- A recurring increase in local government expenditures for additional court costs for processing additional cases, and for confirming whether or not offenders have obtained appropriate levels of liability insurance. Such additional court costs are reasonably estimated to exceed \$100,000 per year statewide.
- The total one-time increase in state expenditures is estimated to exceed \$2,207,400 (\$189,300 + \$18,100 + \$2,000,000).
- The total recurring increase in state expenditures is estimated to exceed \$2,354,242 (\$2,154,242 + \$200,000).
- Revenue and expenditure impacts (except for one-time expenditure impacts) for FY12-13 are estimated to be 50 percent of the first full-year impact (FY13-14) due to effective date of January 1, 2013.
- The total increase in state expenditures for FY12-13 is estimated to exceed \$3,384,521 [\$2,207,400 one-time + (\$2,354,242 recurring x 50%)]; the total increase in local expenditures for FY12-13 is estimated to exceed \$100,000 [(\$100,000 county clerk costs + \$100,000 court clerk costs) x 50%].

\*Article II, Section 24 of the Tennessee Constitution provides that: *no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

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